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Address of Secretary Morgenthau before the National  
Institute of Government, Washington, D. C.,  
Friday, May 3, 1940

I am particularly pleased to be able to talk to you today because I am in such hearty accord with the purpose of this series of meetings, which I understand to be education for democracy. I applaud the initiative and the public spirit of the leaders of the Women's Division of the Democratic National Committee in making this notable convention possible.

In considering your invitation it seemed to me that I might contribute most to stimulation of your thought on the problems of democratic government by talking to you about the money of the United States, and particularly about gold. I have chosen this subject because I think it is one in which all of you are interested; and it is one about which you may be asked a good many questions as the year proceeds.

One thing you will hardly need to be told about our monetary system; that is, that the American dollar is the soundest unit of currency in the world. Its value is unquestioned here at home and it is not questioned anywhere else in the world. It is a solid rock of strength and stability amid all the monetary confusion created by aggression and war. It is more than a domestic currency; it has become in the last few years more and more an international currency.

People throughout the world who are driven by disaster and fear to hoard currency prefer to hoard the currency of the United States, when they can get it.

We have tried through many means to facilitate stability in the currencies of the world. An outstanding example is the Tripartite Accord which we initiated in September, 1936. In all, six of the leading democracies of the world have subscribed to the principles of that Accord. Unfortunately, the progress we were making in the field of international finance and trade has been interrupted by the cataclysm in Europe.

One of the most striking developments of these recent years has been the universal confidence in the American dollar as one of the very few certain things in a highly uncertain world.

Some of our citizens who admit the strength of the dollar and the world's confidence in our currency now suggest that confidence in our dollar has resulted in this country receiving too much gold.

During the last 6 years we have acquired about \$10 billions of gold from abroad.

Why has so much gold come to the United States?

In the first place, we have exported many billions of dollars' worth of goods and services in excess of the amounts we have imported. Secondly, large amounts of foreign funds have come to this country to be placed and kept on deposit with our banks. Foreigners have sent their funds here for

safekeeping because of the peace, stability, and security which this country enjoys.

Thirdly, foreigners have made large investments in American industries because they regard American business as a safe and profitable investment. Finally, Americans have been withdrawing their funds from abroad and liquidating their foreign investments in large sums because they prefer the dollar to any other currency.

It is for these reasons that we have had so large a favorable balance of payments; it is for these reasons that gold has come and is continuing to come to the United States.

Gold moves from country to country not as a commodity but as a means of payment, the one final medium through which international settlements are made.

The continued acceptance of the gold that comes here is the only sound course of action open to us. There are, it is true, other courses of action theoretically possible, but they would all have disastrous consequences.

Take, for example, the proposal so frequently made to us that we stop buying gold. It has the charm of simplicity. All that we have to do is to issue an appropriate Treasury order. But let me tell you what I think would happen. Dollars abroad would instantly become very scarce and more costly, and the foreigner would find it much more expensive to buy American goods. For example,

the British pound, the Canadian dollar, the French franc, the Dutch guilder would at once sharply depreciate. A chain of forces would be set in motion which would disrupt our trade, seriously discourage what remains of world commerce and remove from world finance the strongest element of stability.

The cessation of gold purchases would have the following three immediate effects of great importance to us:

Firstly, the sale of American products in foreign markets would be made much more difficult. This would not apply so much to war materials, which foreign countries want so urgently, but it would hit hard our export of hundreds of agricultural and industrial commodities not vital to the conduct of the war. We would lose heavily in the very markets we will badly need when the war is over.

Secondly, there would result an immediate flood of imports of cheapened foreign goods, which would deal an even more serious blow to labor, industry and agriculture in America. The very items which compete with our domestic products would deluge our home markets. Meat and dairy products, textiles and hundreds of other articles would at once be subjected to greatly intensified competition from abroad.

Thirdly, Americans who have investments abroad would find that they had suffered substantial dollar losses

overnight just as foreigners with investments here would find that they had windfall gains overnight.

So you see this simple remedy is, in effect, a proposal that would completely disrupt our foreign exchanges and our trade and greatly increase unemployment in this country. And so with the other naive proposals which some well-meaning citizens suggest as a remedy for our accumulating gold stocks.

Shall we follow their advice and cut the price for gold? A moderate cut would be ineffective, and a cut in price sufficiently large to have a significant effect on the gold inflow would introduce the same conditions as would follow prohibition of gold imports. This also would cause a serious decrease in our trade and a big increase in unemployment.

Shall we, as some have suggested, discriminate against certain countries in our purchases of gold? Such a policy would not even have the virtue of effectiveness. The active cooperation of practically the entire world would be required to prevent any one country's gold from entering the world's markets and reaching the United States. Obviously this would be impossible even in normal times, let alone at a time such as this. Besides, the value of gold is proportionate to its unqualified use and acceptance as an

international medium of exchange. To limit its acceptance would mean to reduce its usefulness.

There is yet another alternative which has always been open to us. Instead of taking gold we could have granted credit. Americans could again have accumulated huge unsettled claims abroad. We have had experience with that system -- extensive experience -- in the decade that ended with the economic collapse of 1929. It is doubtful that Americans would want to repeat that experience.

For the excess of goods we shipped and for the dollar credits we granted we have taken gold in the last six years instead of promissory notes. The phrase "good as gold" still has real meaning in the world. I prefer the gold to pieces of foreign paper. I think most Americans agree with me.

Our gold policy is carefully adjusted to the realities of a complex world situation. There have been many glib suggestions for changing that policy. Examination of each of these suggestions has revealed, as in the examples I have mentioned, that in the effort to remedy fancied evils they would bring on real disaster.

Of course, should basic conditions alter, should we be confronted with new and unforeseen economic and political developments, the government will necessarily take such

action as will best protect American interests. It is to be prepared for such contingencies that the powers with respect to gold operations have been kept flexible.

The Treasury is constantly observing, analyzing and studying the course of events in their relation to monetary problems in which this country is interested. But nothing has yet appeared which would warrant any change in our gold policy.

There is only one sound way in which we can work to reduce the inflow of gold and to promote the return of at least a part of the wealth it represents to useful service in the lands from which it came. That way is to do everything in our power to contribute to the return of peace to the world and to encourage reconstruction and the restoration of normal trade. With the restoration of enduring peace and economic stability abroad the gold problem will solve itself. Our great export surplus will drop--not because we shall sell less abroad but because we shall buy more. Foreign capital will be gradually repatriated -- not because we drive it out but because it is attracted home by the reemergence of security abroad. Our investors will once again invest their funds abroad -- not because of the scarcity of opportunity at home but because of greatly enhanced opportunities for sound and profitable investments in other lands. And finally our tourists will spend hundreds of millions more in foreign countries.

These are the developments which will automatically and gradually direct the flow of gold away from the United States. These are the developments upon which we must concentrate. We must concentrate on the promotion of further recovery here and peace and security abroad not in order to correct the gold situation, but because prosperity, peace and security are in themselves the supreme ends of governmental policy. That their attainment will also solve the world's gold problem is only a by-product, but an important one.

I should like finally to turn to the question of the continued usefulness of the gold we have and the gold we are going to get. This is a matter that is troubling some people.

Let me reassure you once and for all. As long as there are independent nations, and as long as there is international trade in goods and services, so long will it be necessary to settle international balances. Gold is the international medium of exchange par excellence. Its acceptability is universal; its utility as international money survives changes in economic systems. It is used and needed just as much by the freest democracies as by the most rigid dictatorships -- as much by capitalist economies as by socialist economies. It is the refined



instrument of international exchange of goods and services, as well as an essential ingredient in the more complex international financial transactions -- an instrument that has functioned without challenge for hundreds of years. Every foreign country wishes it had more of it; no foreign country likes to lose any of it; all countries accumulate it as soon as they can afford to do so. And the fact that some countries find it possible to conduct their international trade without gold does not mean that they prefer to do so any more than people reading by candlelight do so because they prefer candles to electricity.

Gold does not lose its value because some countries are forced to resort to clearing arrangements, barter, import controls, and other substitutes. All these substitutes are admittedly worse alternatives. They are methods of conducting trade and finance which will only be adopted when a country does not possess adequate gold holdings. Governments resort wholly to these substitute methods for keeping a country's balance of payments in equilibrium only during times of great and prolonged stress and instability, and only when for one reason or another they have been unable to prevent the loss of most of their gold holdings. All countries would like to have more gold, and the countries which have the least are,

you will find, countries which are striving most to add to their gold holdings. They do so because they know that an adequate supply of gold promotes economic strength and furthers financial stability.

To be sure, if the political picture of the world should undergo a drastic change in the future, so that instead of fifty or sixty independent nations there should exist only one or two groups dominated by ruthless powers, then international trade and finance may assume the character of domestic trade. There would cease to be independent monetary systems, as there would cease to be independent foreign policies. Balances between countries would be settled as balances between our states are now settled -- that is, by transfers of deposits. Under such circumstances it might well be that gold would no longer be needed. But under those circumstances life would be so different that the possible loss in the value of gold would, I am sure, be the least of our troubles.

Certain governments may boast of the day when independent democracies will disappear. I, for one, have no fears that such boasts can be made good. I am as confident that gold will continue to be used as the medium of international payments as I am that the majority of nations will succeed in maintaining their independence. With the return of peace and of normal economic and

political relationships, the present barriers to the free flow of goods, capital, and services will be gradually lowered, and gold will inevitably play its indispensable role in making that result possible.

One word more -- the exchange we made and are making in return for gold is a good bargain for us. It has enabled us to increase employment and recovery. It has made possible the utilization of labor, capital, machinery and resources that would otherwise have been idle. We have expanded our exports and encouraged our domestic industry. And, moreover, we have at the same time acquired the safest physical asset in the world.

There are some sincere people who have been disturbed by stories that this country had a monetary policy that threatens to cause loss to the nation. If you meet such people I hope you will reassure them. You may tell them that the greatest and richest country of the world has the best and soundest monetary system and that there is no reason to fear that it will not remain sound.

We can feel entirely comfortable in the possession of a supply of gold with which we can meet future demands on our monetary system without any shock to our economy. We can be prepared also to play the part we ought to play in the reconstruction of the world that must follow the senseless destruction of war.